

Message Text

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PAGE 01 STATE 178006
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TO AMEMBASSY OTTAWA PRIORITY

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E.O. 11652: N/A

TAGS: EAIR, CA

SUBJECT: CIVAIR: AIR FARES

REF: OTTAWA 06274

1. REFTEL TRANSMITTED CANADIAN NOTICE OF DISSATISFACTION
WITH TARIFFS FILED BY WESTERN AIR LINES DESIGNED TO
COMPENSATE FOR CURRENT US/CANADIAN DOLLAR EXCHANGE
DIFFERENCES. FOLLOWING IS THE TEXT OF THE CIVIL
AERONAUTICS BOARD RESPONSE TO THE CANADIAN NOTICE OF
DISSATISFACTION:

BEGIN TEXT: BY TARIFF REVISIONS MARKED TO BECOME
EFFECTIVE AUGUST 1, 1977, WESTERN AIRLINES HAS PROPOSED
TO PUBLISH A FIVE-PERCENT CURRENCY DIFFERENTIAL IN ITS
U.S.-CANADA CARGO RATES. THE RATES PROPOSED TO/FROM
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PAGE 02 STATE 178006

CANADIAN POINTS ARE SHOWN IN CANADIAN DOLLARS 5 PERCENT
HIGHER THAN THE RATES IN U.S. DOLLARS TO REFLECT U.S./
CANADIAN DOLLAR EXCHANGE DIFFERENCES. WESTERN ALLEGES
THAT IT HAS SUFFERED A LOSS IN 1977 OF US\$21,682 DUE TO
THE RECENT CURRENCY EXCHANGE RELATIONSHIP.

WESTERN AND NORTHWEST AIRLINES, INC. HAVE ALSO PROPOSED

TO PUBLISH PASSENGER FARES SEPARATELY IN UNITED STATES AND CANADIAN CURRENCY FOR TRAVEL BETWEEN THE TWO COUNTRIES. CURRENTLY, THE SAME SUM FARE IS QUOTED IN THE LAWFUL CURRENCY OF CANADA AND THE LAWFUL CURRENCY OF THE UNITED STATES. NORTHWEST'S PROPOSAL, FOR EXAMPLE, WOULD STATE FARES PAID FOR IN CANADIAN CURRENCY AT 105 PERCENT OF FARES PAID FOR IN UNITED STATES CURRENCY TO REFLECT THE PRESENT CURRENCY DIFFERENTIAL. IN SUPPORT OF ITS PROPOSAL, NORTHWEST ALLEGES THAT, DUE TO DEVALUATION OF THE CANADIAN DOLLAR, CONVERSION OF CANADIAN PROFITS INTO UNITED STATES CURRENCY RESULTS IN A NET LOSS OF APPROXIMATELY US\$75,000 MONTHLY. WESTERN ASSERTS IT HAS LOST US\$461,711 IN 1977 (THROUGH MAY 1977) ON CURRENCY TRANSACTIONS AND HAS CITED MARKET ESTIMATES THAT THE CANADIAN DOLLAR MAY CONTINUE TO DECLINE.

WHEN A CURRENCY IS DEVALUED, OFFICIALLY OR ON A FLOAT, IT IS REASONABLE TO CONCLUDE THAT AN UPWARD ADJUSTMENT IN FARES QUOTED IN THAT CURRENCY IS NECESSARY TO COMPENSATE FOR THE INCREASED EXPENSES INCURRED IN THAT CURRENCY BY BOTH UNITED STATES AND FOREIGN CARRIERS. THE VALUE OF THE MARGIN BETWEEN REVENUES RECEIVED BY UNITED STATES CARRIERS IN DECLINING-VALUE CANADIAN DOLLARS OVER EXPENSES IN CANADIAN DOLLARS WILL BE REDUCED WHEN THE FUNDS ARE REMITTED IN UNITED STATES UNCLASSIFIED

UNCLASSIFIED

PAGE 03 STATE 178006

DOLLARS. ON THE OTHER HAND, SHOULD REVENUES RECEIVED BY CANADIAN CARRIERS IN UNITED STATES DOLLARS SUBSTANTIALLY EXCEED EXPENSES IN UNITED STATES DOLLARS THE RESULT WOULD BE A WINDFALL TO THE CANADIAN CARRIERS WHEN THE FUNDS ARE CONVERTED TO CANADIAN DOLLARS. ALSO, BECAUSE OF THE UNIQUE INTERCHANGEABILITY OF U.S. AND CANADIAN CURRENCY, THE PRESENT CURRENCY RELATIONSHIP CAN LEAD TO AN ARTIFICIAL INCREASE IN AIR TRANSPORTATION TRANSACTIONS, ON BOTH SIDES OF THE BORDER, IN THE LOWER VALUE CANADIAN DOLLARS. THIS WOULD ADVERSELY AFFECT U.S. CARRIERS.

A NOTICE OF DISSATISFACTION CONCERNING WESTERN'S RATE PROPOSAL HAS BEEN RECEIVED FROM THE GOVERNMENT OF CANADA. THE GOVERNMENT OF CANADA FILED A NOTICE OF DISSATISFACTION WITH EARLIER NORTHWEST AND WESTERN FARE FILINGS THAT HAVE NOW BEEN REFILED.

THE PRESENT AND POTENTIAL LOSS FOR U.S. CARRIERS IN U.S.-CANADIAN AIR TRANSPORTATION TRANSACTIONS DUE TO THE DISPARATE CURRENCY VALUES DOES NOT APPEAR TO BE MERELY A TRANSITORY ONE. THEREFORE, WE BELIEVE IT IS APPROPRIATE TO REESTABLISH THE PRACTICE PREVAILING A

FEW YEARS AGO OF A SEPARATE STATEMENT OF TARIFF FARES
AND RATES IN U.S. AND CANADIAN CURRENCIES AT DIFFERENT
LEVELS REFLECTING CURRENT EXCHANGE RATES. WE WOULD BE
PREPARE TO CONSULT WITH THE CANADIAN AUTHORITIES ON
THIS MATTER IF NECESSARY. END TEXT.

2. EMBASSY IS REQUESTED TO TRANSMIT THIS STATEMENT TO
THE APPROPRIATE CANADIAN AUTHORITIES, AS SOON AS
POSSIBLE AND NLT AUGUST 1 WHICH IS WHEN WESTERN WANTED
TO MAKE ITS NEW TARIFFS EFFECTIVE. REPORT CANADIAN
REACTION PROMPTLY. VANCE

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Sent Date: 29-Jul-1977 12:00:00 am
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Disposition Approved on Date:
Disposition Case Number: n/a
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